Attachment 4

INFRASTRUCTURE PROGRAM

~~June 16, 2008~~August 18, 2008

This Policy is effective upon adoption.

I. PURPOSE

This attachment to the Inflation-Linked Asset Policy sets forth the investment policy ("Policy") for the Infrastructure Program ("Program").

II. STRATEGIC OBJECTIVE

The Program shall be managed, consistent with CalPERS fiduciary responsibility as set forth in the CalPERS Total Fund statement of policy, to accomplish the following:

A. Preserve investment capital;

B. Generate attractive risk-adjusted rates of return for CalPERS as a total return investor, including the following components:

1. Provide, at a minimum, moderate cash flow from operations with the generation of cash flow secondary to producing long term total returns; and,

2. Provide appreciation potential as a result of employing operational improvements and active best management techniques and practices.

C. Hedge against inflation;

D. Hedge against long-term liabilities;

E. Diversify CalPERS' investments;

F. Establish CalPERS' reputation as a premier infrastructure investment manager and investor of choice within the investment community; ~~and,~~

G. Act as a responsible steward of Program investments through efficient operation of assets, delivery of quality services, utilization of responsible labor and management practices and implementation of responsible environmental practices~~.~~; and,

H. Foster renewal and expansion of infrastructure assets.

III. RESPONSIBILITIES

Responsibilities are described in the Inflation-Linked Asset Class policy, Section III.

IV. PERFORMANCE OBJECTIVE AND BENCHMARK

The Program shall be managed to achieve the following long-term objectives:

A. Exceed a minimum target rate of return equal to a premium of 5% over the inflation rate measured by the United States Bureau of Labor Statistics Consumer Price Index for all Urban Consumers ("CPI"), net of fees over rolling five years; and,

B. Achieve real rates of return from individual assets held in the Program that exceed a target rate that is adjusted for risk depending on the nature of the investment including <u>leverage</u> and the country and region in which it is located with the overall target stated in paragraph A above as the benchmark.

V. ASSET ALLOCATION

The Program asset allocation will comply with the Inflation-Linked Asset Class Policy. The Program allocation range does not include any leverage amounts associated with the investments.

VI. INVESTMENT APPROACHES AND PARAMETERS

A. General Approach

The Program shall seek to invest in opportunities within public and private infrastructure including but not limited to transportation, energy, natural resources, utilities, water, communications and certain social infrastructure projects that meet the Program objectives. Staff shall review and manage investments in a disciplined and <u>opportunistic</u> manner. Staff shall manage the Program as a whole with specific criteria appropriate to listed securities, partnership and <u>direct investments</u>.

Strategic assessments shall identify portfolio weightings and identify the most attractive segments of the market available for investing. Based on these assessments, ~~the~~ Staff shall proactively seek out the most attractive investment opportunities, while maintaining appropriate diversification.

B. Infrastructure Program Strategy

The Program Strategy shall be revised periodically as appropriate and updated as necessary.

1. Portfolio Allocation and Leverage

Sector	Strategy	Characteristics	Portfolio Allocation	Expected Real Return (CPI+)	~~Leverage*~~
Private	Core ~~/ Core Plus~~	o Mature, operating assets with steady cash flows from operations o Low risk and typically low growth o Perpetual or long-term monopoly positions o Typically "buy and hold" assets o Cash yield is the dominant part of total return.	10% - 40%	3% - 5%	~~Less than or equal to 75% (≤ 75%)~~
	Value Added	o Less mature, operating assets in a growth phase o Higher return potential and higher risk in the execution of the growth strategies o May involve an expansion of capacity o May involve a "buy and build" strategy o Cash yield and net capital appreciation are more or less equal.	40% - 70%	5% - 7%	~~≤ 70%~~
	Opportunistic	o Can consist of greenfield construction and development o High risk and high return potential o May involve a roll up of small infrastructure businesses to create a regional or national platform o Capital appreciation forms the dominant part of total return.	0% - 20%	8% - 12%	~~≤ 70%~~
Public	Listed	o Mature, operating assets with steady cash flows from operations			

		o Medium risk and modest growth o Traded equities of infrastructure assets o Liquidity and market beta o Cash yield and capital appreciation are more or less equal.	0% -10%	4% - 6%	~~≤ 60%~~
		Total	100%	> 5%	~~≤ 70%~~

~~* The average leverage guidelines in the table above are applicable for each category.~~ The average leverage level for the infrastructure portfolio shall not exceed 65%. ~~Individual investments within a category may~~ exceed the average leverage guideline depending upon the rating of the debt, debt service coverage and the general characteristics of the investments. Investments exceeding 50% leverage shall be presented to the Committee for review and approval. ~~The maximum leverage levels for individual investment in each category are indicated in the table.~~ As more investments are made in the portfolio and investments are made in different geographies, subsectors and with various investment managers, leverage levels will subsequently decrease below the stated average leverage level. Staff will report the average level of leverage in the program to the Committee on a~~n~~ ~~annual~~ quarterly basis.

The intent of the infrastructure program is to provide consistent, non-volatile and long term returns of CPI plus 5% while incurring modest risk. The intent of the program is not to participate in high risk and highly-leveraged transactions with excessive external manager fee structures. However, it is recognized that leverage is a financing mechanism that is utilized with most infrastructure investments and can be prudently and appropriately deployed. External manager fees for the infrastructure program will be commensurate with the risk and return profile of the infrastructure program.

2. ~~Program~~ Investment Type Risk Matrix

The table below classifies investment types by risk for the purposes of~~risk classification of investment types in table below is an indicative tool for~~ investment selection and portfolio construction. The program will primarily target investments in the low and medium risk categories. Investments in the higher risk category will be considered to be part of the opportunistic segment and will not exceed 20% of program.

Risk Matrix

Risk	Low Risk	Medium Risk	High Risk
Project Example	Seasoned toll roads, bridges, and tunnels.	Airports, seaports	New build of toll roads, bridges, tunnels, airports
	Regulated water/wastewater	Unregulated water/wastewater	Greenfield project development
	Social infrastructure (hospitals, schools, prisons)	Industrial water/wastewater	Communications (broadcast, satellite, cable)
	Regulated electric and gas	Contracted independent power generation	Merchant power plants
		Gas pipelines and storage (including LNG)	
		Rail	
		Other commercial/industrial infrastructure	
		Listed	

Power projects with significant commodity risks will be excluded unless such risks are mitigated or hedged. Merchant power projects which assume a spot price risk for power will be excluded.

3. Regional Allocation

Region	**Allocation**	**Example**
USA	40% -70%	
OECD Countries (ex-USA)	20% - 40%	Canada, Mexico, UK, Australia, Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey
Regions, non-USA, non-OECD	0% - 20%	Asia, Caribbean, Latin America, Central Europe, Middle East, North Africa

Staff will be guided by the CalPERS Emerging Market Principles in the case of direct investments in such countries and will report any investments on an annual basis. In the case of funds or partnership investments where CalPERS is a minority investor staff will report any emerging market investments relative to CalPERS Emerging Market Principles on an annual basis to the Committee.

4. Concentration Limits

Concentration Limits	
Any single investment in a partnership or fund	No more than 25% of committed capital
Aggregate CalPERS commitment to a single general partner, fund or separate account	No more than 30% of CalPERS Infrastructure Program allocation
Any single direct investment	No more than 10% of CalPERS Infrastructure Program allocation
Equity investments	70% - 100%
Debt investments	0% - 30%

C. Domestic Public Private Partnerships

It is the intent of this policy that in evaluating those domestic Public Private Partnerships ("PPPs") in which CalPERS may invest, that Staff, and where appropriate, the Committee will consider the extent to which the sponsoring public entity and the investor(s) share in the benefits and risks associated with the PPP.

Infrastructure assets, by definition, support services that benefit society as a whole and are intended to serve a long and useful life. Recruiting and training a high quality workforce associated with these assets may lead to long term economic value by providing safe, reliable, efficient and high quality services.

D. Domestic Responsible Contractor Program, Preference and Domestic Public Sector Jobs

1. Responsible Contractor Policy and Preference

a. Staff shall secure written agreement from managers of any investment vehicle, for which the Responsible Contractor Program ("RCP") applies, such that all contractors, investors, managers, consultants or other participants shall adhere to CalPERS' investment policy for the RCP, as amended from time to time by CalPERS, in its sole discretion.

b. Preference: Staff shall give a strong preference to all domestic infrastructure investment vehicles that have adopted an internal policy regarding responsible contracting consistent with the CalPERS RCP subject to CalPERS' fiduciary duty.

c. This preference shall apply to any domestic infrastructure investment vehicle for which the RCP is not applicable by its terms other than to make a good faith effort to comply with the spirit of the policy. This specifically applies to investments including, but not limited to, commingled funds, opportunity funds, mezzanine debt, and hybrid debt investments.

d. If the manager of any domestic investment vehicle does not agree to comply with Sections VI (D)(1)(a) or adopt an internal policy regarding responsible contracting, and, if Staff deems it appropriate based on all the circumstances, including the intent of this Policy as well as the investment merits of the investment vehicle, Staff may recommend the potential investment to the Committee and the Committee shall make a determination whether or not to invest in such investment vehicle.

e. Enforcement: In the event it is determined that during the life of an investment vehicle there is a violation of the above stated terms, Staff shall be precluded from making an investment in a follow on fund with the investment manager. If Staff determines it appropriate, based on all the facts and circumstances, Staff may recommend the investment in the follow on fund to the Committee, which will determine whether to invest in the follow on fund consistent with its fiduciary duty.

2. Domestic Public Sector Jobs

a. Provided that CalPERS' fiduciary responsibilities are met, it is not the intent of this policy for these investments to result in job losses to CalPERS members. Staff will present to the Committee for consideration any investment that would directly impact California public sector jobs.

b. Staff shall secure a written agreement from the managers of any domestic investment vehicle (as described herein) that states, substantially in all material respects, that "in circumstances where the investment vehicle is working with a domestic state, local or municipal agency to establish PPPs or to bid on public offers for the sale, lease or management of public assets, the investment vehicle shall make every good faith effort to recognize the important role and contribution of public employees to the development and operation of such assets. In particular, the investment vehicle shall make every good faith effort to ensure that such transactions have no more than a de minimus adverse impact on existing jobs. These efforts shall include working directly with public employees, government officials, or collective bargaining groups, as appropriate, in order to take such reasonable actions as may be within the investment vehicle's control to mitigate such potentially adverse effects. Compliance with this requirement shall be a key consideration by CalPERS when reviewing any future investment opportunities with an investment manager.

c. Enforcement: In the event it is determined that during the life of an investment vehicle there is a violation of the above stated terms, Staff shall be precluded from making an investment in a follow on fund with the investment manager. If Staff determines it appropriate, based on all the facts and circumstances, Staff may recommend the investment in the follow on fund to the Committee, which will determine whether to invest in the follow on fund consistent with its fiduciary duty.

E. Management of Partnership Investments

The Program shall be continually refined to obtain the most effective mix of investments. The Program shall invest in traditional partnership investments, and, as appropriate, funds employing other structures.

F. Management of Direct Investments

The Program shall utilize two types of direct investments: Co-Investments and Independently Sourced Investments. Co-investments and independently sourced investments may be managed through partnerships, separate account structures, or other formation structures, e.g. limited liability companies (LLCs) where the general partner(s) or fund manager(s) have expertise in the specified mandates and in related areas material to the success of each investment vehicle or strategy.

1. Co-Investments are direct investments by CalPERS together with an existing general partner or fund manager. CalPERS may invest in the same security as or a different security in the same asset class than the general partner; for example, preferred versus common stock or voting versus non-voting class of shares. The investment may be with a partnership or investment vehicle in which CalPERS has invested or it may be from another partnership or investment vehicle sponsored by the same general partner.

2. Independently Sourced Investments come to CalPERS through contacts other than the general partners with which CalPERS has invested. CalPERS shall avoid competing directly with its general partners in this segment where applicable.

3. Direct investments will be considered after the necessary staff and consultant resources are in place and the Committee approval is obtained.

G. Management of Strategic Investment Vehicles

Strategic investment vehicles shall include innovative structures that provide a cost effective means to access investment opportunities, exploit CalPERS' strengths, and achieve the maximum risk-adjusted rates of return. Strategic investment vehicles may be either partnership or direct investments.

H. Transaction Processes

1. The Program shall process transactions efficiently. To accomplish this, Staff shall serve as the point of contact regarding all transactions flowing through CalPERS. Staff shall direct and coordinate the activities of the Program's External Resource(s). Staff will then be able to monitor and control the process and ensure that due diligence standards are maintained. Additionally, Staff will play a significant role in marketing the Program.

2. For partnerships, the policy goal will be to maintain timely responses to proposals and to process them efficiently and effectively. Partnerships in which CalPERS is already an investor shall be subject to an expedited due diligence process that combines the on-going monitoring assessment with an update of the original due diligence. New partnerships that warrant consideration shall face a full due diligence review. Section VIII.A contains an outline of the process for evaluating partnerships.

3. Direct investments shall also be addressed in a timely fashion.

4. Strategic investment vehicles shall also be processed in a timely manner. Underlying investments shall be evaluated relative to partnership or direct investment due diligence criteria as appropriate.

I. Quality Control Processes

The Program shall employ a quality control process, which may include both Staff and External Resource(s) to monitor Program efficiency, track investment performance, and manage risk.

1. Monitor Process – Staff monitors transaction processing to insure timely decision making and an effective process.

2. Monitor Portfolio Performance – Actual returns are compared to the Program's performance objectives, and to the expected return for the investment.

3. Monitor Risk Control – Program standards are maintained through the following processes:

   a. Assess the level of diversification in the portfolio on a continual basis, including the level of diversification across investment style, geographic distribution, industry concentrations, and across other ranges as appropriate.

   b. Track and monitor due diligence activity and review the External Resource's due diligence. Monitor External Resource's activities and internal policies and procedures.

   c. Identify problems early and take corrective action quickly.

J. Risk Parameters

1. Financial Risk: Infrastructure investments may employ substantial leverage (borrowing), which may result in significant financial risk.

2. Liquidity Risk: Infrastructure investments may lack liquidity and may have time horizons greater than 10 years. Secondary markets for such investments can be very limited.

3. Credit Risk: Credit markets experience volatility and changes in these markets may have a significant impact on the cost of financing infrastructure investments and overall transaction execution.

4. Political and Public Risk: Infrastructure investments may be associated with political approval and public acceptance of projects.

5. Labor Risk: Risks associated with public sector outsourcing, or labor relations may affect investment opportunities in infrastructure.

6. Regulatory Risk: Changes in regulatory conditions may affect investment returns.

7. Country Risk: Political, economic, and currency risks are associated with investing in all countries.

8. Structural Risk: CalPERS negotiates its agreements to include certain fundamental rights, protections and remedies. These basic protections include advisory committee participation, specific termination provisions in partnership transactions, anti-dilutions, put and call options, voting rights for material events, and other covenants and governance provisions in the case of direct investments.

9. Valuation Risk: Partnerships shall be evaluated to determine if the general partner employs an appropriate valuation discipline. For direct investments, the Staff shall review valuations to determine if they are reasonable.

10. Market Risk: The infrastructure market continues to develop globally and market opportunities can change depending on many variables such as market supply and demand.

11. Environmental and Climate Risk: Long term investment returns may be impacted by risks and opportunities related to the environment and climate change.

12. Hazardous Materials: Implementation of the Program shall comply at all times with CalPERS' Hazardous Materials policy.

K. Guidelines for Evaluating Proposals

Proposed partnership, direct investment, and strategic investment vehicle opportunities shall be evaluated relative to their fit with the Program Strategy.

Section VIII contains outlines of specific guidelines for partnerships and direct investments, respectively. Strategic investment vehicles shall be evaluated according to the underlying structure of the investment, which may include either partnership or direct investments.

L. Renewable Energy and Sustainability

CalPERS encourages the prudent use of sustainable development methods and operational practices when reasonable and economically feasible. Consideration shall be given to the use of renewable energy technologies, recycled and renewable building materials, air and water conservation technologies and practices, and efficient waste, recycle and disposal technology and practices. Consideration shall also be given to the environmental sustainability of investments including but not limited to energy efficiency, fuel economy, alternative energy generation and distribution impacts.

VII. PERMISSIBLE INVESTMENTS

CalPERS shall consider any appropriate investment opportunity with the potential to meet or exceed the Program's performance objectives. Investments shall generally fall within the categories defined below.

A. Infrastructure Sectors

CalPERS shall consider investment opportunities within, but not limited to, the following infrastructure sectors:

1. Transportation assets (e.g. - bridges, roadways, railways, transit and tunnels);

2. Ports (e.g. - airports, seaports, barges and terminals);

3. Utilities (e.g. - clean energy, pipelines, storage and distribution and power transmission);

4. Water (e.g. – water treatment, distribution, storage, desalination and other water related investment areas);

5. Energy resources (e.g.- hydrocarbons, gas, geothermal, wind-generated, water-generated, and nuclear; transmission; and distribution);

6. Communications (e.g. - broadcast and wireless towers, cable systems and satellite networks);

7. Social Infrastructure (e.g. - educational facilities, healthcare facilities and judicial buildings); and,

8. Other infrastructure investments that are aligned with CalPERS' strategic objectives.

B. Structures and Investment Vehicles

The Program shall be implemented primarily through direct equity investments in infrastructure (either 100% owned or through partnerships, funds, joint ventures or other co-investment vehicles). Equity (privately-held or publicly-traded), leveraged equity, and debt instruments with equity-like features, are also appropriate structures for investments.

CalPERS shall consider a number of different vehicles for investments including, but not limited to, the following:

1. Equity Investments in 100% owned assets;
2. Equity joint-ventures or other co-investment vehicles;
3. Indirect equity investments in commingled funds; private or public corporations; limited partnerships; or other pooled investment vehicles;
4. Private placements of equity or debt in public or private infrastructure operating companies;
5. Investment grade as well as lower or unrated tranches of pre-existing securitized or lower structured debt instruments, such as mezzanine or other debt with equity-like features;
6. Leveraged equity investments;
7. Listed infrastructure companies, Exchange Trade Funds (ETF);
8. Futures or swaps on listed infrastructure indices on a fully collateralized basis; and,
9. Restrictions and Prohibitions: A list of prohibited investments is outlined in the Inflation-Linked Asset Class policy in Section V.B.

C. Selection Considerations

In choosing specific investment vehicles for the Program, consideration shall be given, but not limited to the following:

1. Proposed investment strategy;
2. Expected risk and return attributes of vehicles;
3. Potential diversification benefits;
4. Investment time horizon;
5. Potential exit strategies and liquidity;

6. Monitoring costs and feasibility;

7. Tax considerations;

8. Other incremental costs;

9. Fee arrangements;

10. Co-investment by management firm or partner;

11. Potential conflicts of interest;

12. Governance and control;

13. Partners or co-investors; and,

14. Performance track record.

D. Diversification by Geography

The Program shall seek to include investments in a variety of jurisdictions. Investments in both domestic and international markets are permitted with the relative proportion of each type at a given time to be determined based on prevailing market conditions. Regional diversification within a particular country shall also be considered when such diversification contributes measurably to risk mitigation. Section VI.B.3 provides the Regional Allocations for the infrastructure investments.

E. Diversification by Revenue and Strategy

The Infrastructure portfolio shall be diversified so that no one source of revenue is dominant in the portfolio of the Program.

The Senior Investment Officer responsible for the Inflation-Linked Asset Class will review the investments in infrastructure assets and vehicles regularly and identify adjustments when necessary to ensure satisfactory diversification by geography and revenue sources. Adjustments to diversification in the Program shall be implemented on an opportunistic basis over a reasonable time frame (normally within a three-year period), and with ample consideration given to preserving the investment returns to CalPERS. Section VI.B.1 provides the Portfolio Allocation for infrastructure investments.

F. Diversification by Asset Size

The size of portfolio investments shall depend on the opportunities available to CalPERS, with neither small nor large investments being dominant in the Program. Furthermore, investment size shall be appropriate to the projected risk versus return level of the investments. However, in order to have some effect on the infrastructure portfolio and to maximize relationships, a select group of investors may be utilized to invest a significant portion of the infrastructure portfolio.

G. Investment Holding Period and Dispositions

The target holding period for infrastructure assets shall generally be for long-term investment (10 years or more). However, disposition of individual investments may be triggered by an opportunity to capture a return in excess of the targeted return, or by a revised investment strategy resulting from changes in markets for infrastructure assets or changes in CalPERS' financial objectives.

H. Use of Leverage

Leverage is permissible in the Program to enhance investment returns. Infrastructure assets are able to attract and service significant debt levels due to stable inflation-linked cash flows, long term concessions and off-take agreements. The program shall be managed to ensure that leverage is appropriate and that it is accretive to returns considering leverage risk. Staff will consider the debt rating, debt service ratios and stability of cash flow in addition to the debt level (leverage) to determine if debt is excessive. A minimum debt rating of BB by Standard and Poor's, Ba1 by Moody's or equivalent is required on the debt for all investments. ~~Section VI.B.1 provides the leverage guideline levels for infrastructure investments.~~

I. Credit Rating

For Program investments in debt securities, a minimum credit rating of BB by Standard and Poor's, Ba1 by Moody's or equivalent is required at the time of investment.

VIII. SPECIFIC CONSIDERATIONS

A. Partnership and Fund Investment Guidelines

1. Minimum Requirements and Investment Styles

a. The principals of the investment vehicle shall demonstrate relevant experience in or directly applicable to the market in which they propose to work or the strategy they wish to execute.

b. The proposed strategy and business plan shall be set forth in sufficient detail to permit substantive and meaningful review of the opportunity, verification of the investment concept and risk factors, and assurance that the investment opportunity can be realized and produce the required return.

c. The risk- and reward trade-off in the particular market that is addressed by a partnership or fund proposal shall be attractive, based on reasonable assumptions.

2. Evaluation Criteria

Primary emphasis will be on the quality and experience of the general partners in a partnership investment. Additional factors may include, but are not limited to, the following as appropriate:

a. Fit with the Program Strategy and within the Program.

b. Integrity of the general partner, its employees, other investors and quality of overall partnership or fund governance, management of the partnership or fund, including controls and reporting systems.

c. Relationship with <u>limited partner</u>s.

d. Potential for co-investments.

e. Creativity of the general partners to implement a unique strategy that is not competitive with existing investments.

f. Reasonable ratio of investors to general partners and reasonable ratio of committed capital to general partners.

g. Appropriateness of terms and conditions and alignment of interests with limited partners.

3. Due Diligence

A due diligence review by Staff and <u>External Resources</u> selected for reviewing a transaction shall include the following, when applicable:

a. Review and analysis of all pertinent offering documents including but not limited to offering memorandums, subscription agreements, private placement memorandums and operative investment agreements.

b. Consideration of potential conflicts of interest, if any, posed by the proposed investment and prior investments and activities of the principals.

c. Review and analysis of the investment concept, including entry and exit strategies and terms including fees, principal participation, and structure.

d. Review and analysis of the fit within the Program, including fit with the Strategy, other constraints and guidelines, and compliance with applicable investment policies.

e. Review of background and reference of principals and review and analysis of track record including performance of prior and current investments.

f. Investigation of special terms and side letter agreements with past or present investors.

g. Analysis of the competition between a given proposal and an existing preferential relationship or alternative asset, which may include, but is not limited to, a review of the following: the size of the industry, the segment of the industry, and the deal flow for both the preferential relationship and the proposed investment.

h. Review of any lawsuits, litigation involving the general partner, its principals, employees and prior funds.

4. Legal Constraints

Legal counsel shall be consulted for advice and interpretation of the many areas of legal concern, including but not limited to:

a. Tax concerns;

b. Licensing and registration requirements; and,

c. Regulatory compliance, that is, partnerships and proposed investments must take all relevant state and federal regulatory requirements into consideration.

5. Other Parameters

   a. Types of allowable investments: Any appropriate investment opportunity which has the potential for attractive risk-adjusted returns which is not otherwise prohibited by CalPERS.

   b. Terms and conditions: Fees, preferred returns, profit splits, and other terms and conditions are negotiated as appropriate and when prudent.

   c. Use of fund's name: Staff and external resource(s) identify any submitted investment opportunity containing as part of its name or title any reference to CalPERS and immediately inform the proposer that inclusion of such a reference or use is inappropriate and unacceptable to CalPERS and require that it be removed.

B. Direct Investment Guidelines

1. Minimum Requirements

   a. Management shall have compiled relevant business and management experience.

   b. The entity in which the investment is made shall be appropriately capitalized in the relevant circumstances.

   c. CalPERS exposure to direct investments shall be limited to the investment amount through appropriate formation structures (e.g. LLCs, partnerships or separate accounts).

2. Evaluation Criteria

   Primary emphasis shall be on the following:

   a. The integrity of the general partner, its employees, and other investors.

   b. The historical and prospective financial condition of the company including its market position, relative competitive position within the industry and capital structure.

   c. The growth prospects of the company and its industry in light of existing and anticipated economic conditions.

d. The underlying stability of the company's business, earnings, financial and operating controls, reporting mechanisms and the quality of the corporate governance.

e. The quality of the company's assets, such as manufacturing facilities, inventories, receivables, and other assets, including intangibles, essential to the company's operations.

f. The quality, stability and experience of the management team, the Board of Directors, and other investors, including the quality of their interaction.

g. The return potential of the investment, given its terms and conditions, compared to the perceived risks and the relative return/risk profile of comparable investments.

3. Additional Considerations

At a minimum, additional factors shall include the following:

a. The specific objectives and goals of the company and its management team including the strategy to be employed to achieve the aforementioned objectives and goals. Management and investors should have a well thought-out plan for creating and realizing value from the company.

b. The controlling shareowner(s) and other institutional investors.

c. The relationship with the management team, the Board of Directors, other investors and any controlling shareowners.

d. The potential for future follow-on investment opportunities.

4. Due Diligence

For co-investments, Staff, and External Resources if utilized, will rely heavily on the work of the general partner sponsoring the transactions while conducting its own due diligence. Independently sourced investments will require a much more in-depth due diligence review because these investments do not come to CalPERS through one of the existing general partners in the portfolio.

A due diligence review by Staff and the External Resources if selected for reviewing a transaction shall include the following, when applicable:

a. Review of whether the proposed investment falls within the Strategy, constraints and guidelines, and if it complies with applicable investment policies.

b. Review and analysis of all pertinent documents, including offering memorandums, research reports, annual and quarterly reports, SEC reports, proxy statements and news articles regarding the company, management and industry.

c. Performance of background checks of the senior management team and any controlling shareowners.

d. Review of the company's historical and projected financial operating results, market position, and present financial condition, including examination of auditor reports and possible interview of the auditor.

e. Review and analysis of any contingent liabilities, including potential liabilities related to anticipated legal action, environmental issues, under-funded pensions, taxes and insurance issues.

f. Review and analysis of ownership structure, employee benefit plans, anti-takeover provisions, labor contracts, and as appropriate, consultation with relevant labor representatives.

g. Performance of third party reference checks with key suppliers, customers and, when advisable, competitors.

h. Review of the company’s instruments of indebtedness, corporate instruments, board minutes and any special agreements between the company and other major investors.

i. Review and analysis by counsel of all relevant state and federal regulations and regulatory reports, examinations and ratings regarding the company and its business sector.

j. Conduct visits to the company's principal facilities and corporate headquarters and interviews with board members, senior management and controlling shareowners.

5. Legal Constraints

Legal counsel shall be consulted for advice and interpretation of the many areas of legal concern, including but not limited to:

a. Tax concerns;

b. Licensing and registration requirements; and,

c. Regulatory compliance, that is, partnerships and proposed investments must take all relevant state and federal regulatory requirements into consideration.

6. Other Parameters

a. Method of Participation: CalPERS generally participates as a preferred or common stockholder or as a senior or subordinated debt investor with common stock participation.

b. Types of Allowable Investments: Any appropriate investment opportunity which has the potential for attractive risk-adjusted returns and which is not otherwise prohibited by CalPERS.

c. Terms and conditions: Fees, preferred returns, profit splits and other terms and conditions are negotiated as appropriate and when possible.

d. Use of CalPERS name: Staff and external resource(s) identify any submitted investment opportunity containing as part of its name or title any reference to CalPERS and immediately inform the proposer that inclusion of such a reference or use is inappropriate and unacceptable to CalPERS and require that it be removed.

e. Corporate Governance

Consistent with CalPERS policies on Corporate Governance,

(1) Voting: CalPERS shall maintain full voting rights with respect to any class of securities in which it might invest. Where applicable, CalPERS shall execute all proxies and voting instructions in a manner consistent with CalPERS' Statement of Investment Policy for Global Proxy Voting. When appropriate, CalPERS may wish to participate as part of a voting trust

agreement under which a third party (e.g., a lead investor) retains its proxy to vote CalPERS interests.

(2) Board of Directors Representation: CalPERS shall consider seeking representation on the board of directors of a corporation in which it invests, in a manner consistent with CalPERS' Statement of Investment Policy for Representation on Corporate Boards of Directors. CalPERS may wish to retain the right to have an independent representative or representatives of CalPERS appointed to a portfolio company's Board of Directors. Furthermore, the fund should allow for the possibility to retain the right to have such representatives participate in select committees of such Board of Directors (e.g., Audit Committee, Executive Committee or Compensation Committee).

(3) Board of Directors Accessibility: CalPERS should strive to obtain the right to attend, as an observer, a portfolio company's Board of Directors meeting. Directors should be accountable to CalPERS as a shareowner. To ensure this accountability, directors must be accessible to CalPERS' inquiries concerning key decisions affecting the company's strategic direction.

(4) Board of Directors Composition: Board Composition should follow corporate governance best practices consistent with CalPERS' Global Principles of Accountable Corporate Governance. CalPERS should strive to obtain agreements as to the composition of a Board of Directors, including guidelines on the number of outside Directors and the composition of key committees.

(5) Special Voting Rights: With the exception of Global Equity portfolio companies, CalPERS should, if desirable, strive to obtain special class voting rights with respect to specific corporate governance matters such as proposals deemed contrary to CalPERS' interests, for example, as in the case of hostile takeovers.

IX. CALCULATIONS AND COMPUTATIONS

A. Reporting

1. Staff shall require periodic reports from investment partners to facilitate monitoring that are appropriate for the specific transaction.

2. Staff shall monitor individual partnerships, direct investments and the portfolio as a whole. Monitoring includes diversification across alternative investment types and programs to assure an appropriate mix.

3. Performance Reporting

a. Partnership Investments

(1) Objectives established by the partnership or the principals managing the investment (actual financial performance as compared to original plan);

(2) Risk undertaken;

(3) Performance of other similar investments;

(4) The short-term monitoring benchmark for partnerships in the first four years of their term; and,

(5) The long-term performance objective, with appropriate interpretation if applied to the short-term.

b. Direct Investments

CalPERS shall assess the performance of direct investments relative to the following areas:

(1) Actual financial performance of a company compared to the business plan and strategy;

(2) Risk undertaken; and,

(3) The performance of the company against its pro forma operating results, its industry and the total Program portfolio.

c. Strategic Investment Vehicles

CalPERS shall assess the performance of strategic investment vehicles according to original plan and partnership and direct investment criteria as appropriate.

4. Committee Reports

Quarterly and annual reports shall be provided to the Committee. These reports shall include reviews of investments and their performance.

Approved by the Policy Subcommittee: June 16, 2008
Adopted by the Investment Committee: August 18, 2008

Asset Class Glossary: Inflation Linked Asset Class
Policy: Infrastructure Program
August 18, 2008

Advisory Committee
A group of investors in the partnership whose primary functions are to address certain partnership-related issues. Based on the roles and responsibilities outlined in limited partnership agreement, the Advisory Board may review conflicts of interest, approve valuation policies, review operating budgets, vote on partnership term extensions, and perform other duties as deemed appropriate.

Co-Investments
A direct investment into a portfolio company by limited partners alongside the general partner and generally done so on similar terms.

Debt Service Coverage (DSC)
The annual net operating income divided by the annual debt service.

De minimis
So small or minimal in difference that it does not matter or the law does not take it into consideration (term used primarily in law).

Direct Investments
An investment in which CalPERS has ownership interest in a property or group of properties.

Due Diligence
The process of investigating, evaluating, and analyzing a potential investment's characteristics, investment philosophy, and terms and conditions.

Exchange Traded Funds (ETF)
An investment company that is legally classified as an open-end company or a Unit Investment Trust. An ETF is not classified as a mutual fund by the Securities and Exchange Commission because of limited redeemability. A typical ETF is similar to an index fund, and will invest either all of the securities of a selected index or a representative sample of the securities included in the index.

External Resources
Includes management consultants, accountants, industry specialists, traditional pension fund consultants, investment bankers, or industry experts.

General Partner
The manager of a limited partnership. The general partner has full responsibility for investing the capital. The general partner also bears personal liability for any

lawsuits that arise from the investment's activities, but is often indemnified by the fund.

Hedge (Hedging)
A strategy used to offset investment risk. A perfect hedge is one eliminating the possibility of future gain or loss.

Independently Sourced Investments
A type of direct investment which is sourced through contacts other than the general partners with which CalPERS is invested.

Investment Grade
A minimum credit rating of Baa3 by Moody's Investor Service or BBB- for Standard & Poor's Corporation, and BBB- by Fitch. Investment grade ratings apply to issuers whose financial risk is relatively low and the probability of future payment relatively high.

Leverage
A condition where a portfolio's market obligation may exceed the market-value-adjusted capital commitment by the amount of borrowed capital (debt).

Limited Partner
An investor in a limited partnership. Limited partners provide the capital, but have no direct involvement in the day-to-day management of the fund. Limited partners have limited liability, but also have limited control over the management of the fund.

Limited Partnership
The most common format used in structuring private equity investments. Limited partners provide the capital but have no direct involvement in the management of the fund. Limited partners have limited liability but also have limited control over the management of the fund.

OECD
Organization for Economic Cooperation and Development. An organization that acts as a meeting ground for 30 countries which believe strongly in the free market system, The OECD provides a forum for discussing issues and reaching agreements, some of which are legally binding.

Opportunistic
An established investment program temporarily investing outside its benchmark or asset category based on current favorable market conditions.

Option
Contracts that give the purchaser the right, but not the obligation, to buy or sell an underlying instrument at a certain price (the exercise or strike price) on or

before an agreed date (the exercise period). For this right, the purchaser pays a premium to the seller. The seller (writer) of an option has a duty to buy or sell at the strike price, should the purchaser exercise his right.

Preferred Return
A term in the partnership agreement that describes a minimum return that is paid to the limited partners before the general partner receives any share of the profits.

Strategic Investment Vehicles
Special-purpose investment vehicles formed by CalPERS with other partners to make strategic investments.

Transaction
An agreement between a buyer and a seller to exchange an asset for payment. A transaction often takes the form of a partnership, co-investment, or direct investment.